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## **Intelligence Report**

*Office of Near Eastern and South Asian Analysis*

# **India: Improved Relations With China Tempered by Conflict and Competition**

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## ***Intelligence Report***

Office of Near Eastern and South Asian Analysis

# **India: Improved Relations With China Tempered by Conflict and Competition**

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**India: Improved Relations  
With China Tempered by  
Conflict and Competition**

**Summary**

Information available  
as of 1 September 1994  
was used in this report.

India's efforts to improve relations with China are likely to continue because New Delhi sees significant economic and political benefits from the rapprochement that has developed over the past three years:

- India is benefiting from increased trade with China, according to [redacted] open sources, and is seeking to expand other types of Sino-Indian economic cooperation.

Tensions between India and China will probably flare intermittently because of unresolved issues, such as the Sino-Indian border dispute. India continues to have concerns about the long-term military threat China poses. Moreover, relations are likely to be strained by increased competition for foreign investment and access to international markets:

- Despite their efforts over the past six years, India and China have been unable to resolve their border dispute, and progress is likely to be slow.

- India regards China as its greatest competitor for access to foreign investment and international markets, according to press reporting.

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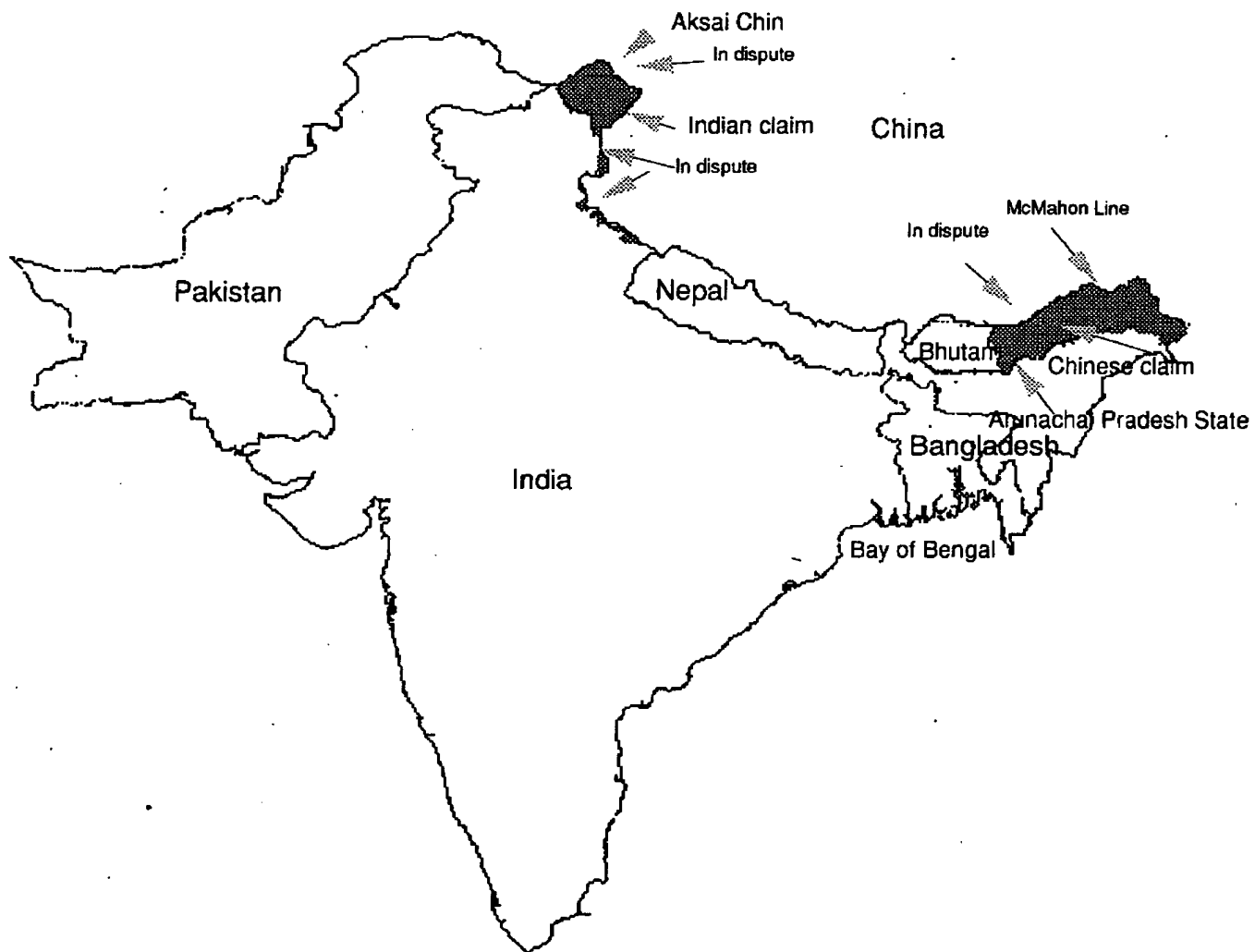
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### Sino-Indian Border Claims



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## India: Improved Relations With China Tempered by Conflict and Competition

### Redefining the Relationship

Relations between India and China have been tense since the early 1900s over competing territorial claims along their 3,400-kilometer border. In 1962, India and China engaged in a monthlong military conflict over the disputed border in which India suffered humiliating territorial losses on its northwestern border in the area known as Aksai Chin. They again came to the brink of war in 1987 over competing claims to Wangdung Ridge in the northeast but managed to avoid military confrontation.

In the aftermath of the 1987 border crisis, New Delhi and Beijing sought ways to improve their relations. The upturn in relations began in 1988 when then-Indian Prime Minister Rajiv Gandhi visited Beijing. The end of the Cold War provided further impetus to improved relations. With the collapse of the Soviet Union in 1991, India lost its principal source of military and economic aid and was forced to search for new partners. China, for its part, no longer had to worry about a hostile Soviet-Indian alliance, which made it possible for Beijing to reconsider its relations with New Delhi.

In recent years India and China have recognized that they share common interests and perspectives on important international issues such as nonproliferation and human rights. Both countries resist external pressure on these issues as interference in their internal affairs, even though India would like to see China cease its weapons assistance to Pakistan. Their mutual support in these areas has helped ease bilateral tensions and provided additional momentum to improving relations.

The growing rapprochement between India and China has been underscored by high-level exchanges since Gandhi's visit in 1988:

- In December 1991, Li Peng became the first Chinese Premier to visit India in 31 years.

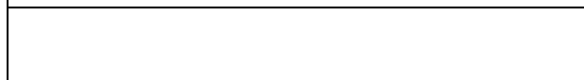
### The Sino-Indian Border Conflict

*India and China have fought over their border since the early 1900s. At the Simla Conference in 1914, the United Kingdom and Tibet—the latter considered by London to be politically autonomous at the time—signed a border agreement establishing the McMahon line. China refused to recognize the agreement, denying Tibetan authority to make the agreement. (U)*

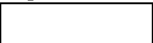
*In 1962, India and China engaged in a monthlong military conflict over the disputed border that resulted in major territorial gains for China in Aksai Chin. As a result of India's defeat, China claimed territory south of the McMahon line, establishing a new line of control that India does not recognize. In their unilateral cease-fire of November 1962, the Chinese established a 20-kilometer buffer zone and warned India not to try to reoccupy the zone north of the line of control. (U)*

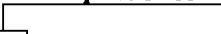
*The buffer zone helped maintain peace in the region until 1987, when tensions between India and China escalated to the brink of military confrontation. Chinese border patrols provoked Indian forces when they established bases on Indian-claimed territory at Wangdung Ridge. India countered the Chinese move by increasing its forces in the area. During the standoff, India and China responded to what each side perceived as provocation by strengthening forces in the border area. The large number of troops amassed on either side of the border (roughly 60,000 each) probably deterred a major military confrontation, and the two countries returned to the negotiating table in November.*

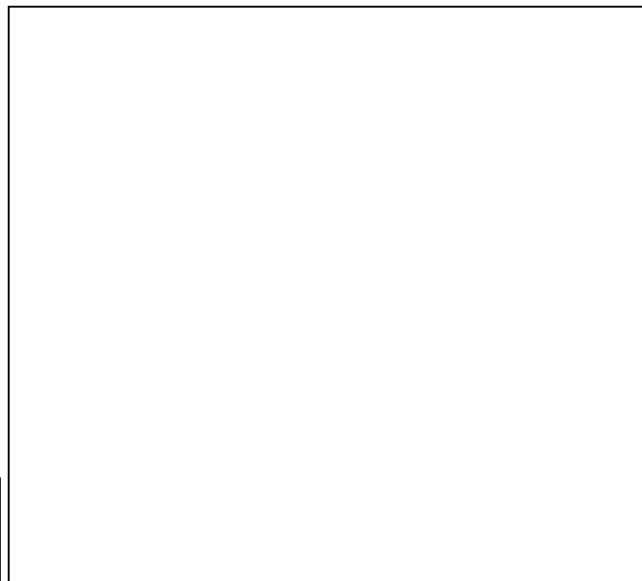
- In May 1992, Indian President Venkataraman met with Li in Beijing. This resulted in an agreement to settle the Sino-Indian border dispute through negotiations.



#### India's Expectations

- In June 1993, an Indian economic delegation visited China to explore possibilities for expansion of bilateral trade. 

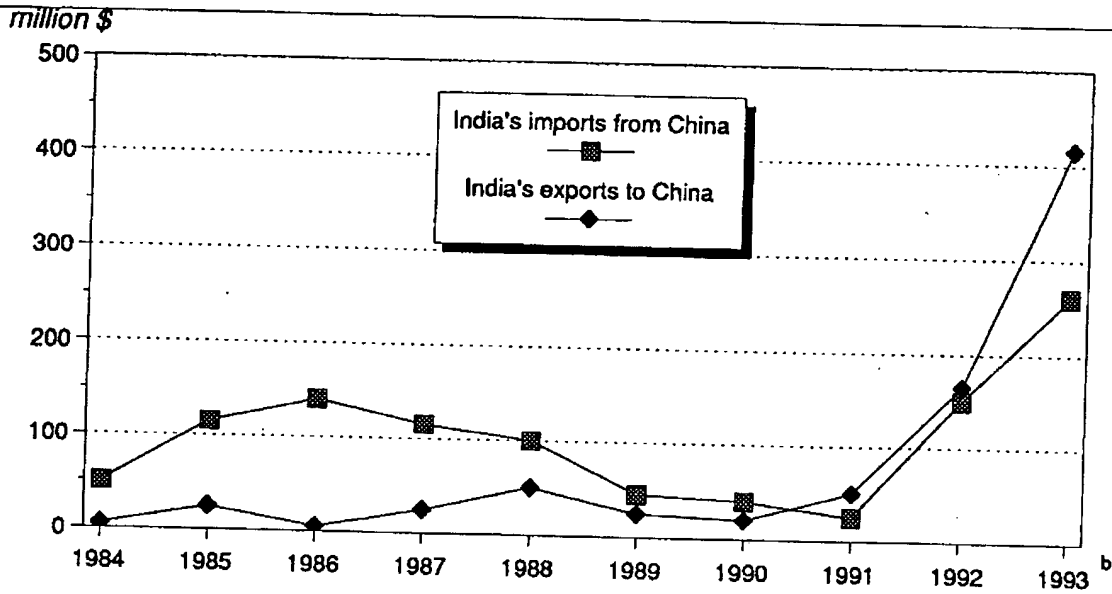
These exchanges culminated in the meeting of Prime Minister Rao and Premier Li in September 1993 in Beijing, where the two sides agreed in principle to undertake confidence-building measures to ease tensions along the border. These included a reduction in military forces in the border area, notification of military exercises, and prevention of airspace violations. An expert group was established to work out the details of this agreement. Pending a boundary settlement, the two countries agreed to respect the existing line of control, formalizing the arrangement that has been in place since the end of the 1962 Sino-Indian war. 



***Economic Growth and Development.*** India is already benefiting from increased trade and improved economic

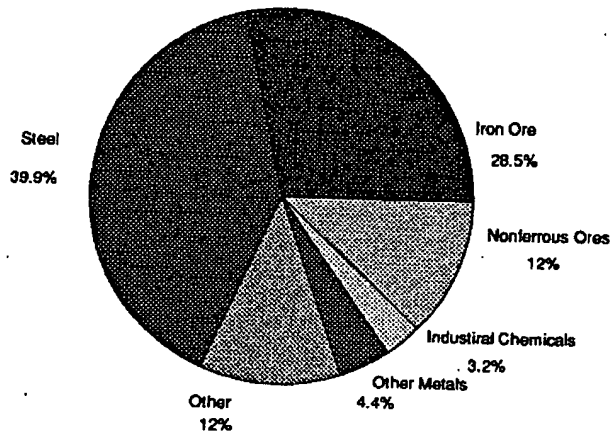


# India-China: Trade, 1984-93 <sup>a</sup>

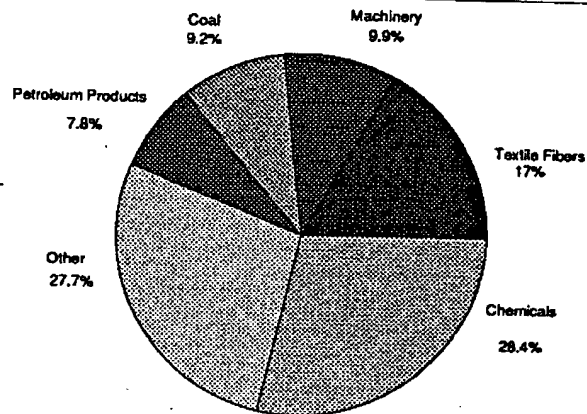


<sup>a</sup> Trade between China and India in 1993, although much improved over 1992, accounts for less than 2 percent of either country's total trade with the world.  
<sup>b</sup> Estimate

## Exports to China, 1992



## Imports From China, 1992




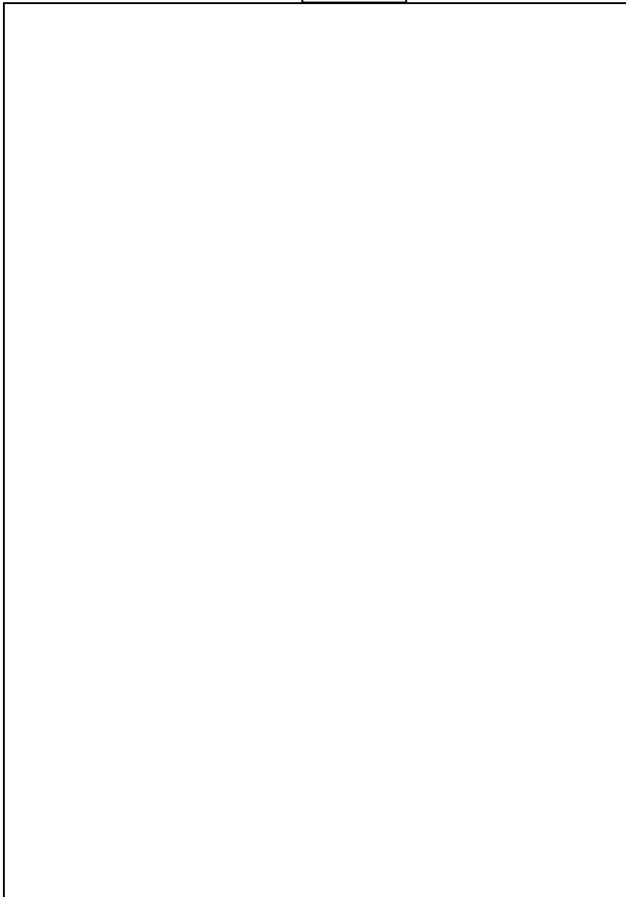
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cooperation with China, especially since the balance of trade currently favors India:





- India has entered into at least five joint ventures with China since 1991 in the fields of steel and cement production, coal mining, and pharmaceutical manufacturing. For example, the Indian press reports that India's largest drug manufacturer, Ranbaxy Laboratories Limited, will hold 70 percent equity in a \$7-million pharmaceutical joint venture with two Chinese companies.
- According to press reporting, Chinese investment in India through collaborative ventures totaled \$12 million in 1993. 



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#### *Sino-Indian Relations From China's Perspective*

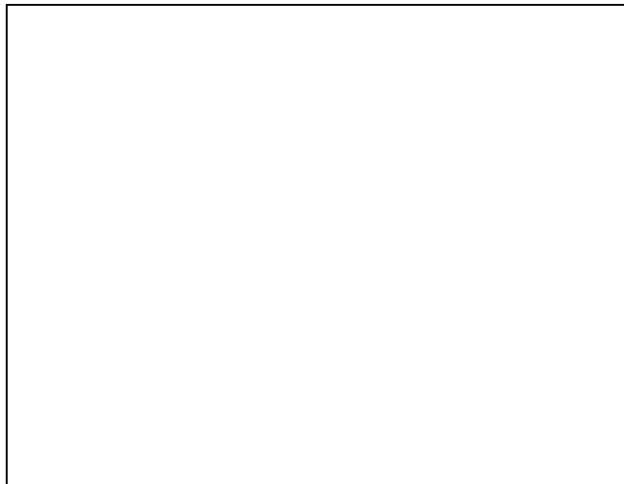
*China's motivations for improving relations with India include the need to create a stable regional environment for China's economic growth and improved Indo-US relations following the collapse of the USSR. China has shifted its approach to South Asia to capitalize on the new opportunities brought about by the end of the Cold War. Beijing is strengthening its political and economic links to India to counter what it sees as efforts by the West to fill the political gap left by the decline of Soviet influence in the region.* 

*China is expanding its relationship with India as a means of reassuring New Delhi that China's relations with Pakistan are benign. Beijing's goal is a rough balance of power in the subcontinent between India and Pakistan and thus attempts to maintain cordial ties to both. Similarly, Beijing views its continuing relationship with Islamabad as a way to limit India's ambition to establish preeminence in South Asia.* 

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**Support in International Forums.** India has gained from its cooperation with China on international issues where the two share similar views and concerns. To blunt international pressure on human rights:

- Indian and Chinese representatives in international forums have publicly rejected Western criticism of their countries' human rights records in similar terms, arguing that such criticism is a smokescreen for outside interference in their internal affairs.



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- [Redacted]
- [Redacted]
- Military strategists and defense experts writing in the *Indian Defence Review* have argued that, whether they are used to reinforce defenses in vulnerable sectors such as Punjab or to add muscle to one of the strike corps, additional troops withdrawn from the border near Tibet could make a major difference in the north and west. [Redacted]

#### Enduring Obstacles

- Indian representatives rely on the support of their Chinese counterparts—among others—to advance their argument that Australia Group export control guidelines violate the chemical and biological conventions.
- India and China have long offered similar critiques of the nuclear Non-Proliferation Treaty as “discriminatory” toward developing countries. [Redacted]

**Redirecting Military Commitments.** Improved Sino-Indian relations have prompted Indian military leaders to reassess their posture along the Chinese border and begin redirecting their forces as part of an effort to reduce defense expenditures:

[Redacted]

Although bilateral relations have improved, unresolved sources of tension continue to impede rapid progress toward a genuine or complete Sino-Indian rapprochement. Despite recent progress, resolution of the border dispute is unlikely in the next few years because of Indian political constraints. Tensions between New Delhi and Beijing will also be sharpened from time to time by India’s protection of Tibetan exiles. New Delhi’s primary concern will continue to be the long-term military threat it sees China posing to Indian national security. [Redacted]

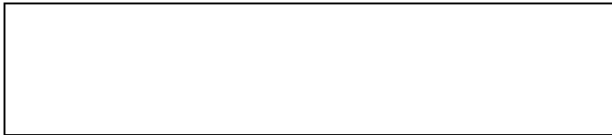
**Border Dispute.** India and China have been unable to resolve their border dispute despite efforts over the past six years:


[Redacted]

- China has proposed resolving the dispute by offering to cede the Himalayan Sikkim region to India in exchange for a reciprocal concession from New Delhi in Aksai Chin. [Redacted]
- [Redacted]

Domestic political constraints significantly limit New Delhi’s flexibility in dealing with the issue:


[Redacted]



- Although a US Information Agency public opinion poll conducted in July 1993 showed that 61 percent of Indian elites would support an "adjustment" to the Sino-Indian border, the adjustment they were willing to endorse was the opposite of the Chinese offer—Indian concessions in Sikkim for Chinese concessions in Aksai Chin. 

Indian law and the status of Kashmir also narrow New Delhi's bargaining position:

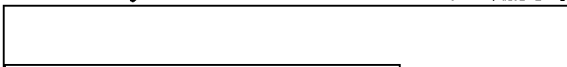


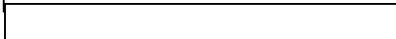

- Aksai Chin is part of the princely state of Jammu and Kashmir, and a formal surrender would undercut India's territorial claim to all of Kashmir. 

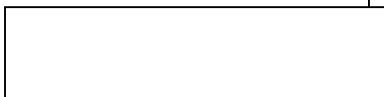
**Tibet.** New Delhi's relationship with Tibet's Dalai Lama is another source of tension in its dealings with Beijing. India's protection of Tibetan exiles was one of the causes of the 1962 Sino-Indian war and will continue to be a potential flashpoint in Sino-Indian relations. Despite these risks, India continues to provide religious sanctuary to the Dalai Lama and his exiled Tibetan followers with full protection under Indian law. China took strong exception when India allowed a conference on Tibet to be held in New Delhi in March 1994, according to press reporting, characterizing the conference as interference in China's internal affairs.




**National Security.** India's perception of the threat posed by China's military capabilities, weapons development programs, and military relationships are another key source of tension in Sino-Indian relations.



 Beijing's weapons development efforts, its support to Pakistan, and its relationship with Burma fuel Indian suspicions and are major obstacles to rapprochement. 

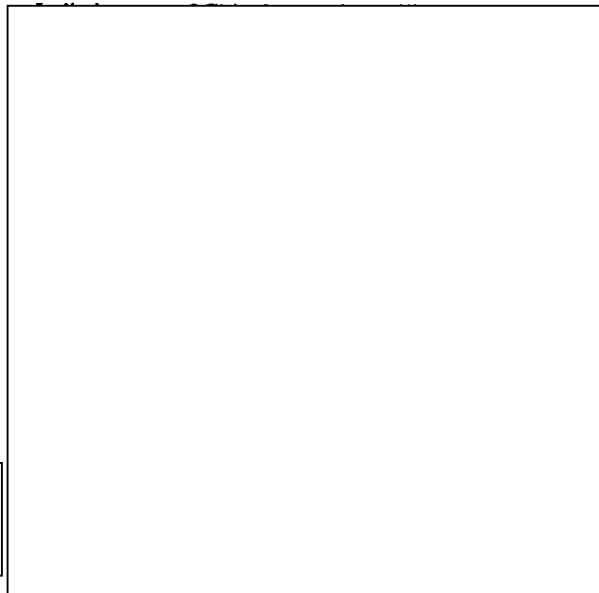


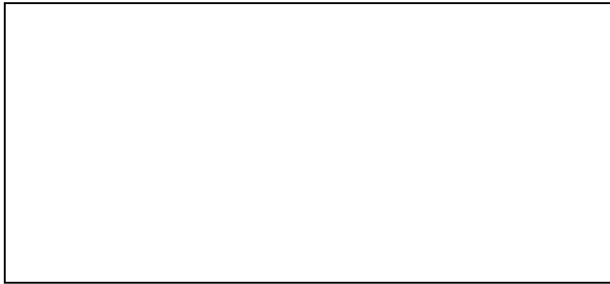
### **Indian Apathy Over Recent Chinese Military Buildup in Tibet**


*New Delhi appeared unconcerned about the Chinese military buildup in Tibet in May, which was probably to deter Tibetan unrest. According to a press report, an Indian Defense Ministry spokesman dismissed the Chinese military buildup in Tibet and claimed that the border situation with China was "absolutely normal." If India had perceived China's actions as threatening, precedent suggests that New Delhi would have submitted a demarche to Beijing or moved additional troops to the border with China.* 



India is deeply concerned about China's assistance to Pakistan's nuclear weapons program and military forces.



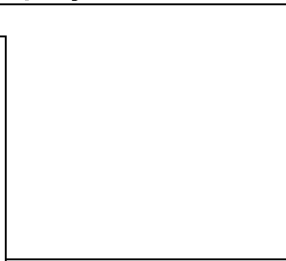


- Indian businessmen are increasingly concerned about Chinese competition in areas such as garments, spices, and aquaculture that are important export markets for India, according to Indian press reporting. 

#### Managing Ambivalence


#### Competition


The pursuit of economic development and recognition as a global power are two key areas where competition between India and China is likely to generate new tensions in their relationship.



Although it benefits from expanding trade relations with the Chinese, India regards China as its greatest competitor for access to foreign investment and international markets:

- The Indian press continually cites China's economic statistics as evidence that Beijing is attracting foreign investment that would otherwise go to India. For example, in 1992, China drew \$11.2 billion in foreign investment compared to India's \$1.24 billion. In 1993, paid-in investment in China surged to a record high \$25.8 billion, more than five times India's \$4.7 billion.<sup>2</sup>

India's attitude toward its relations with China is likely to remain ambivalent, reflecting New Delhi's simultaneous pursuit of critical—but potentially contradictory—foreign policy objectives. New Delhi will be able to manage this ambivalence, in our view. It will continue its efforts to expand economic relations and secure a broader Chinese market for Indian goods and services. Diplomatic advantages gained from closer ties to China—increased effectiveness at thwarting international pressure on nonproliferation and human rights, and backing for a permanent seat on the UN Security Council—will remain paramount. 

To balance its relations with China, New Delhi will seek benefits from improved ties to other countries, such as the United States and Russia. New Delhi will continue efforts to urge the United States to restrict China's nuclear weapons program, which India perceives as a threat. India has vowed not to sign any regional nonproliferation agreement, such as the global test ban treaty and fissile material treaty, unless efforts are made to curtail China's nuclear program. Finally, India will seek Russian weapons contracts to compete militarily with China and Pakistan. 

<sup>2</sup> In the power sector, industry observers argue that India's extensive regulations and entrenched bureaucracy make it less attractive to investors than China's energy sector. 